



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

August 7, 2008

Starlet Blanchette
Training Specialist III, Education, Training & Development
Automobile Club of Southern California
3333 Fairview Road
Costa Mesa, CA 92626

Dear Ms. Blanchette:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET03-0195 for the period December 2, 2002 through December 1, 2004.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditors during the audit. If you have any questions, please contact Charles Rufo, Audit Director, at (916) 327-5439.

Sincerely,

Original signed by:

Charles Rufo
Audit Director

Enclosures

cc: Kelly Bozza, Manager, Education, Training & Development

SACRAMENTO CENTRAL OFFICE
1100 J Street, 4th Floor
SACRAMENTO, CA 95814
(916) 327-5640

N. HOLLYWOOD REGIONAL OFFICE
4640 Lankershim Blvd., Suite 311
NORTH HOLLYWOOD, CA 91602
(818) 755-1313

S.F. BAY AREA REGIONAL OFFICE
1065 East Hillsdale Blvd, Suite 415
FOSTER CITY, CA 94404
(650) 655-6930

SAN DIEGO REGIONAL OFFICE
5353 Mission Center Road, Suite 110
SAN DIEGO, CA 92108
(619) 686-1920

AUTOMOBILE CLUB OF SOUTHERN CALIFORNIA

Agreement No. ET03-0195

Draft Audit Report

For The Period

December 2, 2002 through December 1, 2004

Report Published August 7, 2008

Charles Rufo, Audit Director
Telephone: (916) 327-5439

Audit Staff: Stephen Runkle

Employment Training Panel
Audit Unit
1100 J Street FL 4
Sacramento, CA 95814-2827

TABLE OF CONTENTS

	<u>Page Number</u>
AUDITOR'S REPORT	
Summary	1
Background	2
Objectives, Scope, and Methodology	2
Conclusion	3
Views of Responsible Officials	3
Audit Appeal Rights	3
Records	4
SCHEDULE 1 - Summary Of Audit Results	5
FINDINGS AND RECOMMENDATIONS	6
<u>ATTACHMENTS</u>	
ATTACHMENT A - Appeal Process	
ATTACHMENT B - Table of Disallowed Trainees	

AUDITOR'S REPORT

Summary

We performed an audit of Automobile Club of Southern California's compliance with Agreement No. ET03-0195, for the period December 2, 2002 through December 1, 2004. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period September 11, 2006 through September 15, 2006, except for Finding No. 1 and 5, for which our report is dated April 16, 2007.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$719,928. Our audit supported \$714,880 is allowable. The balance of \$5,048 is disallowed and must be returned to ETP. The disallowed costs resulted from 3 trainees who were ineligible trainee placements, 2 trainees who did not meet post-training retention requirements, 2 trainees who did not complete sufficient class/lab training hours, and 6 trainees who did not complete sufficient computer based training hours. In addition, we noted an administrative finding for inaccurate reporting of trainee wage rates.

AUDITOR'S REPORT (continued)

Background

Automobile Club of Southern California (ACSC) is a not-for-profit company that was founded in 1900 to promote and encourage the construction of good roads, protect the interests, lawful rights and privileges of owners or users of motor vehicles. ACSC headquarters, administrative offices and member services call centers are located in Southern California. These offices support operations in Hawaii, New Mexico and Texas.

This Agreement was the first training project between ETP and ACSC. The Company's in-person, face-to-face service model was being challenged by Internet technology that was bringing many new companies into the marketplace by allowing customers to go online to conduct travel and insurance business. Therefore, to respond to increasing competition and the resulting decrease in commissions and profit margins, and also promote advances in technology in all aspects of its operations, ACSC developed new strategies for call center, travel, and insurance employees to provide a higher level of customer service and additional member benefits. This Agreement provided for training in Business Skills, and Computer Skills to allow the implementation of those strategies.

This Agreement allowed ACSC to receive a maximum reimbursement of \$1,134,000 for retraining 1,750 employees. During the Agreement term, the Contractor placed 1,111 trainees and was reimbursed \$719,928 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of ACSC. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that ACSC complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees received the minimum training hours specified in the Agreement.
- Trainees were employed continuously full-time with a participating employer for 90 consecutive days after completing

AUDITOR'S REPORT (continued)

training, and the 90-day retention period was completed within the Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$714,880 of the \$719,928 paid to the Contractor under this Agreement is allowable. The balance of \$5,048 is disallowed and must be returned to ETP.
------------	---

Views of Responsible Officials	The audit findings were discussed with Starlet Blanchette, Training Specialist III, Education, Training & Development, and Kelly Bozza, Manager, Education, Training & Development, during an exit conference held on September 15, 2006 and via e-mail on July 29, 2008. A draft report was issued to the Contractor on July 31, 2008. Ms. Blanchette agreed to bypass response to the draft report and proceed to the final audit report.
--------------------------------------	---

The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning April 30, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$618.95, which was deducted from the total accrued interest.

Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
------------------------	--

AUDITOR'S REPORT (continued)

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Charles Rufo
Audit Director

Fieldwork Completion Date: April 16, 2007

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET03-0195 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

AUTOMOBILE CLUB OF SOUTHERN CALIFORNIA

AGREEMENT NO. ET03-0195

FOR THE PERIOD

DECEMBER 2, 2002 THROUGH DECEMBER 1, 2004

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 719,928</u>	
Disallowed Costs:		
Ineligible Trainee Placements	1,944	Finding No. 1
Post-Training Retention Requirements Not Met	1,296	Finding No. 2
Insufficient Class/Lab Training Hours Attended	1,040	Finding No. 3
Insufficient CBT Course Hours	768	Finding No. 4
Inaccurate Reporting	<u>-</u>	Finding No. 5
Total Costs Disallowed	<u>\$ 5,048</u>	
Training Costs Allowed	<u><u>\$ 714,880</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Ineligible Trainee Placements

Trainee employment information shows that three trainees were incorrectly placed in Job No. 1 and did not meet the minimum wage requirement specified in the Agreement for Job No. 2. Therefore, we disallowed \$1,944 (3 Job No. 1 trainees x \$648) in training costs claimed for these trainees.

Automobile Club of Southern California (ACSC) was eligible for standard retraining (out-of-state competition) in Job No. 1 and Special Employment Training (SET) for frontline workers earning at least the state average hourly wage in Job No. 2. Exhibit A, Chart 1 of the Agreement between ACSC and ETP indicates that Insurance Sales Agents may only be placed as frontline workers in Job No. 2. Based on standard retraining eligibility requirements, the occupation of Insurance Sales Agent was not eligible to receive training in Job No. 1.

In addition, Exhibit A, paragraph VII of the Agreement between ACSC and ETP states, "Each trainee must be employed full-time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement]."

Personnel records obtained from ACSC indicated Trainee Nos. 6, 8, and 10 were placed in Job No. 1, but were employed as Insurance Sales Agents and performed office insurance functions, which were only allowed for Job No. 2 trainees. ETP reviewed payroll records to determine if these trainees would have been eligible for placement in Job No. 2. However, payroll records obtained from ACSC indicated that those trainees failed to meet the SET minimum wage requirement of \$20.27 per hour for Job No. 2. The Agreement allowed the Contractor to include the dollar value of employer-paid health benefits to meet minimum wage requirements. The table below shows the wage reported by ACSC, required SET wage rate, actual wage per ACSC payroll records, and employer-paid health benefits.

Trainee No.	Job No.	Reported Wage Rate	Required SET Wage Rate for Job No. 2	Wage Rate Per Payroll Records	Employer-Paid Health Benefits	Total Actual Wage Rate
6	1	\$20.77	\$20.27	\$15.58	\$2.56	\$18.14
8	1	\$21.01	\$20.27	\$16.80	\$1.25	\$18.05
10	1	\$14.42	\$20.27	\$14.42	\$1.07	\$15.49

FINDINGS AND RECOMMENDATIONS (continued)

Thus, Trainee Nos. 6, 8, and 10 were not eligible for placement in either Job Nos. 1 or 2.

Recommendation ACSC must return \$1,944 to ETP. In the future, the Contractor should ensure all trainees are eligible for reimbursement based on ETP's eligibility determination. Contractor may need to consider certain trainee occupations, depending on their job function, to determine their eligibility for ETP-funded training. Also, Contractor should ensure trainees meet minimum wage requirements before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Employment information shows that two trainees did not meet post-training retention requirements. Therefore, we disallowed \$1,296 (2 Job No. 1 trainees x \$648) in training costs claimed for these trainees.

Post-Training Retention Requirements Not Met

Exhibit A, paragraph VII. A. of the Agreement between ACSC and ETP states, "Each trainee must be employed full-time, at least 35 hours per week, with the Contractor or a single participating employer for a period of at least ninety (90) consecutive days immediately following the completion of training."

Payroll records obtained from ACSC indicate that Trainee Nos. 5 and 7 did not meet post-training requirements. Both trainees failed to work at least an average of 35 hours per week. Furthermore, Trainee No. 5 had no payroll activity of any kind past July, 13, 2004 and, therefore, failed to be retained for at least the required 90 days. The table below shows the average hours worked per week, and retention period.

Trainee No.	Job No.	Hourly Wage Rate	Post-Training Retention Period	Average Hours Per Week
5	1	\$15.12	4/24/04 - 7/23/04	24
7	1	\$14.95	6/16/04 - 9/15/04	26

Based on the hourly wage rates, Employment Development Department (EDD) base wage information does not support these trainees were employed full-time during the identified retention period or any subsequent 90-day period up to the Agreement end date.

Recommendation ACSC must return \$1,296 to ETP. In the future, the Contractor should ensure that trainees meet all applicable post-training retention requirements before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – ACSC training documentation did not support the minimum training hours required for two trainees. As a result, we disallowed \$1,040
Insufficient (2 Job No. 1 trainees x \$520) in class/lab training costs claimed for
Class/Lab Training these trainees.
Hours Attended

Paragraph 2(b) of the Agreement between ACSC and ETP states that “Each trainee should complete 100% of the required class/lab and videoconference training hours. The Panel will not reimburse the Contractor for a trainee who does not complete a minimum 80% of the required hours...”

Trainee No. 1 had disallowed training hours due to the trainee's name and signature not being recorded on one roster and a missing training roster. Trainee No. 3 had training hours disallowed due to the Contractor's reporting of unallowable teleconference training and a missing training roster. Allowable training hours attended for each trainee were less than 80 percent of the class/lab training hours required. The table below shows required training hours, training hours per trainee transcript, training hours disallowed, and total allowable training hours for each trainee.

Trainee No.	Required Training Hours	Training Hours per Trainee Transcript	Training Hours Disallowed	Total Allowable Hours
1	40	39.25	8.00	31.25
3	40	33.00	2.50	30.50

Recommendation ACSC must return \$1,040 to ETP. In the future, the Contractor should ensure that trainees attend the training hours required by the Agreement prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 4 – ACSC training documentation did not support the minimum Insufficient CBT Computer Based Training (CBT) hours required for six trainees. As Hours Completed a result, we disallowed \$768 [(5 Job No. 1 trainees x \$128) + (1 Job No. 2 trainee x \$128)] in CBT costs claimed for these trainees.

Paragraph 2(b) of the Agreement between ACSC and ETP states that “For projects with computer-based training (CBT), each trainee should complete 100% of each CBT course. The Panel will not reimburse the Contractor for a trainee who does not complete a minimum 80% of each CBT course. Reimbursement for each completed CBT course shall be for the standard number of hours to complete the course...” In addition, Exhibit A, Chart 1 of the Agreement between ACSC and ETP indicates that each trainee is to receive 40 Class/Lab training hours and 16 CBT hours.

Trainee Nos. 2, 3, 4, 9, 11 and 12 had CBT documentation provided by ACSC that supported less than 80 percent of the required CBT hours. The table below shows their Job No., CBT hours required, CBT hours completed and the percentage of required CBT hours completed.

Trainee No.	Job No.	Required CBT Hours	Standard Number of CBT Hours Completed	Percentage of Required CBT Hours Completed
2	1	16	7	43%
3	1	16	12	75%
4	1	16	10	62%
9	2	16	7	43%
11	1	16	9	56%
12	1	16	10	62%

Recommendation ACSC must return \$768 to ETP. In the future, the Contractor should ensure that trainees complete the CBT hours required by the Agreement prior to claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 5 – Trainee hourly wage rates reported by ACSC on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate Reporting

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in form and manner prescribed by ETP.” Accurate, complete trainee wage rate information is required to verify compliance with Exhibit A, page 4, paragraph VII-A of the Agreement. This section states, “Each trainee must be employed full-time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

Wage information obtained from ACSC shows that trainee hourly wage rates reported were incorrect for 23 out of 64 trainees randomly tested. Actual hourly wage rates differed from reported wage rates by more than 5 percent for these trainees.

Recommendation In the future, the Contractor should ensure all trainee data reported to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006